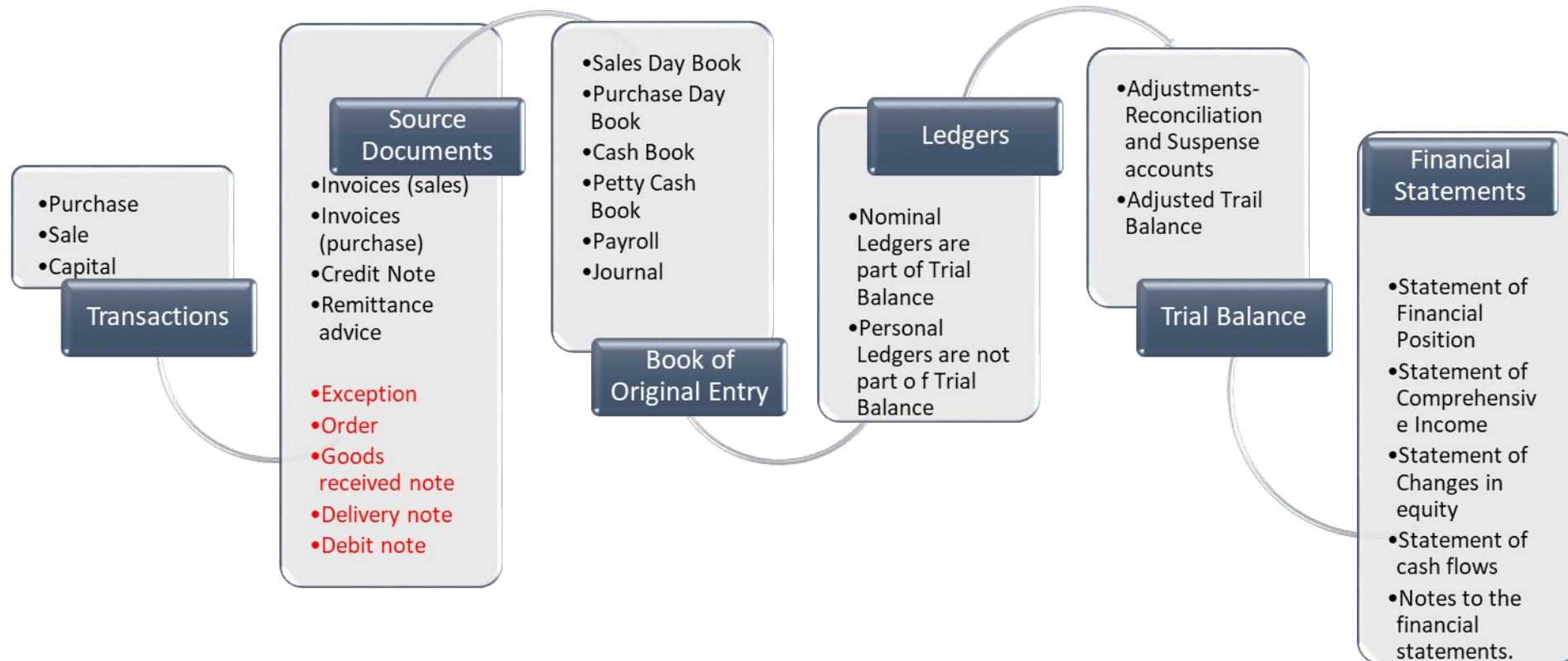


Ledger accounting and double entry (C-4)

***Prepared By: Muhammad Gaus
Samdani FCA***

Transaction Flow to Financial Statements

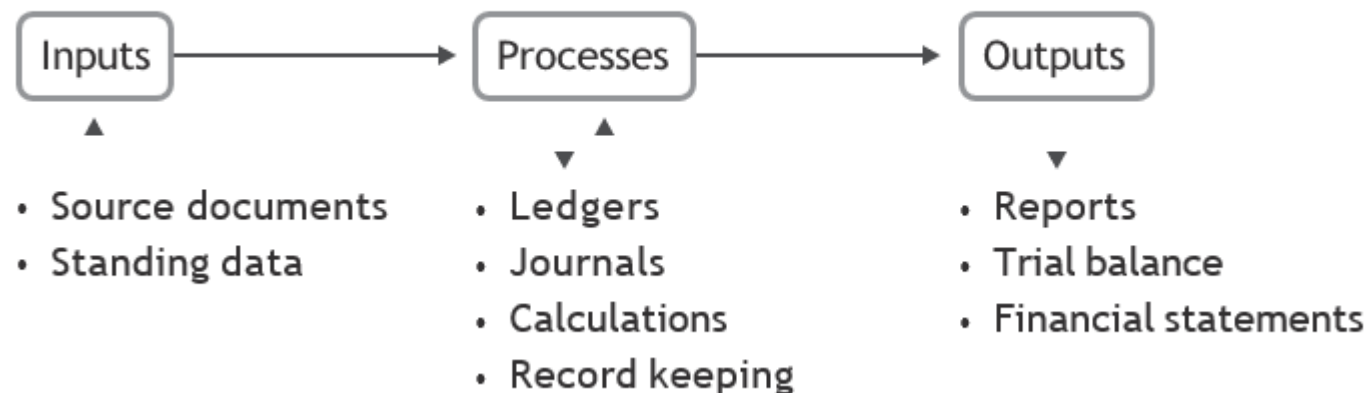


Computerized accounting systems

An accounting system is the system in place within a business to allow it to record, process and store financial information. An accounting system enables a business to satisfy the requirement for businesses to maintain records of their financial transactions and allows it to produce relevant and reliable information for stakeholders.

In *Accounting*, we refer to traditional way of recording transactions, using books, as **manual accounting system**. The vast majority of accounting systems are now **computerised**.

Figure 3.1: Accounting System



Accounting software packages

Accounting software packages are commonly used computerized accounting systems. Accounting software packages range from simple 'off-the-shelf' programs that meet the requirements of a small business, to systems that are fully integrated with businesses other systems such as inventory management and human resource management systems that are used in large and complex organizations.

Computerized accounting system is a software package which contains several different modules such as for payroll, for managing balances owed by credit customers or for maintaining a record of non-current assets.

The modules interact with each other in such a way that information entered into one module will automatically update other relevant modules, for example, recording a credit sale will update both the sales module and the module that manages the balances owed by credit customers.

Cloud accounting

Benefits

- The main benefit of cloud accounting is that a business can access its accounting records from any computer (or tablet or phone) that has an internet connection.
- the business does not need to purchase expensive, sophisticated IT equipment in order to run specialized software or store large amounts of data. As the software is maintained by the service provider, the business may also be able to reduce IT support costs within its own business.

Drawbacks

- ❖Cloud accounting requires access to the internet.
- ❖Server outages on the cloud that would mean that there were temporary restrictions on the ability to access data.
- ❖Potential data security issues, such as an increased risk of data being hacked and loss or damage to data.
- ❖Reliant on the service provider to provide adequate security.

Source documents for recording financial transactions

Figure 3.2: Sales system

Customer order

When a customer places an order, a **sales order** is created detailing the goods or services required and the agreed price. While sales orders are very important from a practical point of view, they are **not** treated as source documents for recording financial transactions in the business accounts.

Dispatch goods

When the goods or services are delivered to the customer, they are usually accompanied by a **delivery note** prepared by the seller. This sets out the goods/services delivered, the quantities delivered, the date of delivery and the delivery address. A delivery note is **not** a source document.

The delivery note is most often prepared with reference to the sales order. Once the delivery is complete the delivery note is used to provide information for creating the **sales invoice**. The delivery note is **not** a source document for credit transactions.

Raise invoice

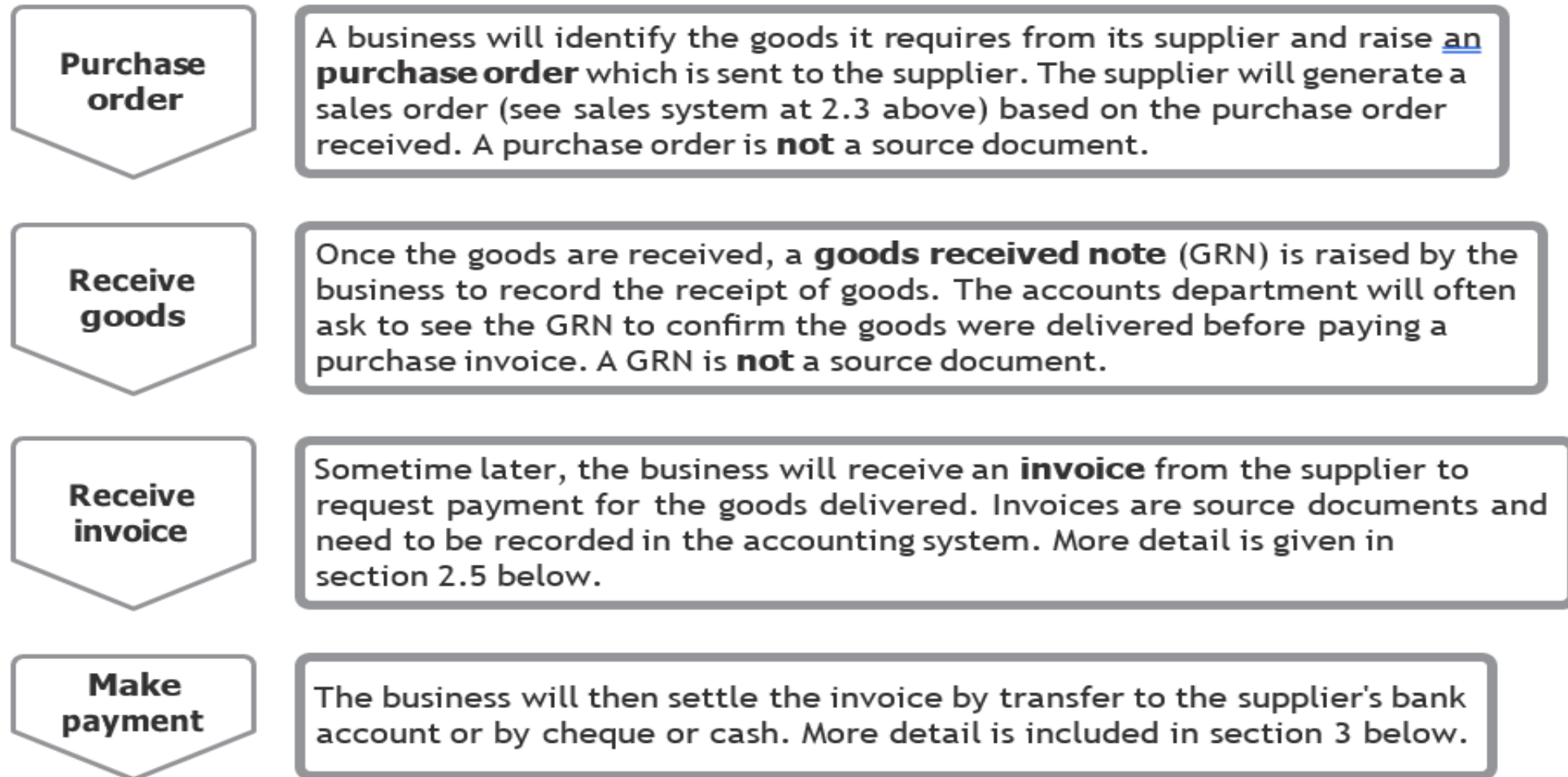
The seller will then prepare and send an **invoice** to the customer to request payment for the goods or services delivered. **Invoices are source documents** and need to be recorded in the accounting system. More detail is given in section 2.5 below.

Receive payment

The customer will then settle the invoice either by bank transfer or by cheque or cash. More detail is given in section 3 below.

Source documents for recording financial transactions

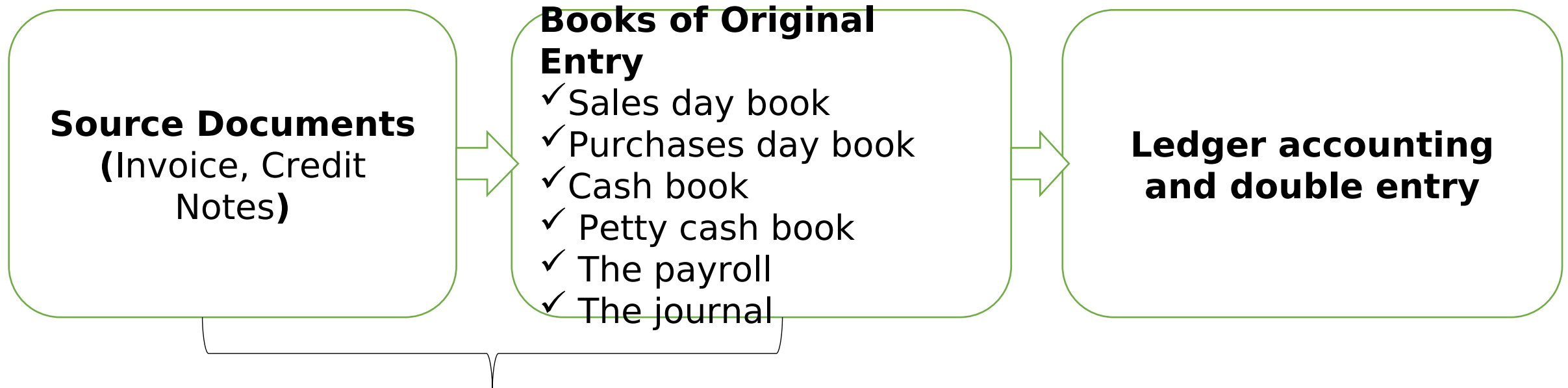
Figure 3.3: Purchase System



Ledger Accounts

Why do we need ledger accounts?

- Ledger accounts summarize all the individual transactions listed in the books of original entry.
- Records should be kept in ledger accounts in **chronological order**, with cumulative totals built up.
- **Types:** General Ledger, Receivables / Sales and Payables / Purchase Ledger.



Ledger Accounts

Nominal Ledger

✓ The nominal ledger is the accounting record which analyses all the entity's financial records. e.g. Receivables Control, Payables Control etc.

Personal Ledger Vs Nominal Ledger

- Individual ledger accounts for each credit customer / supplier are maintained in the receivables / payables ledger, these are the personal accounts.
- A total receivables / payables account is held in the nominal ledger, called the receivables / payables control account.
- These are ***memorandum accounts*** only; they are ***not part of the double entry system***. But double entry rules applied here.

Personal / Receivables /
Payables Ledger Accounts
**[MEMORANDUM
ACCOUNTS]**

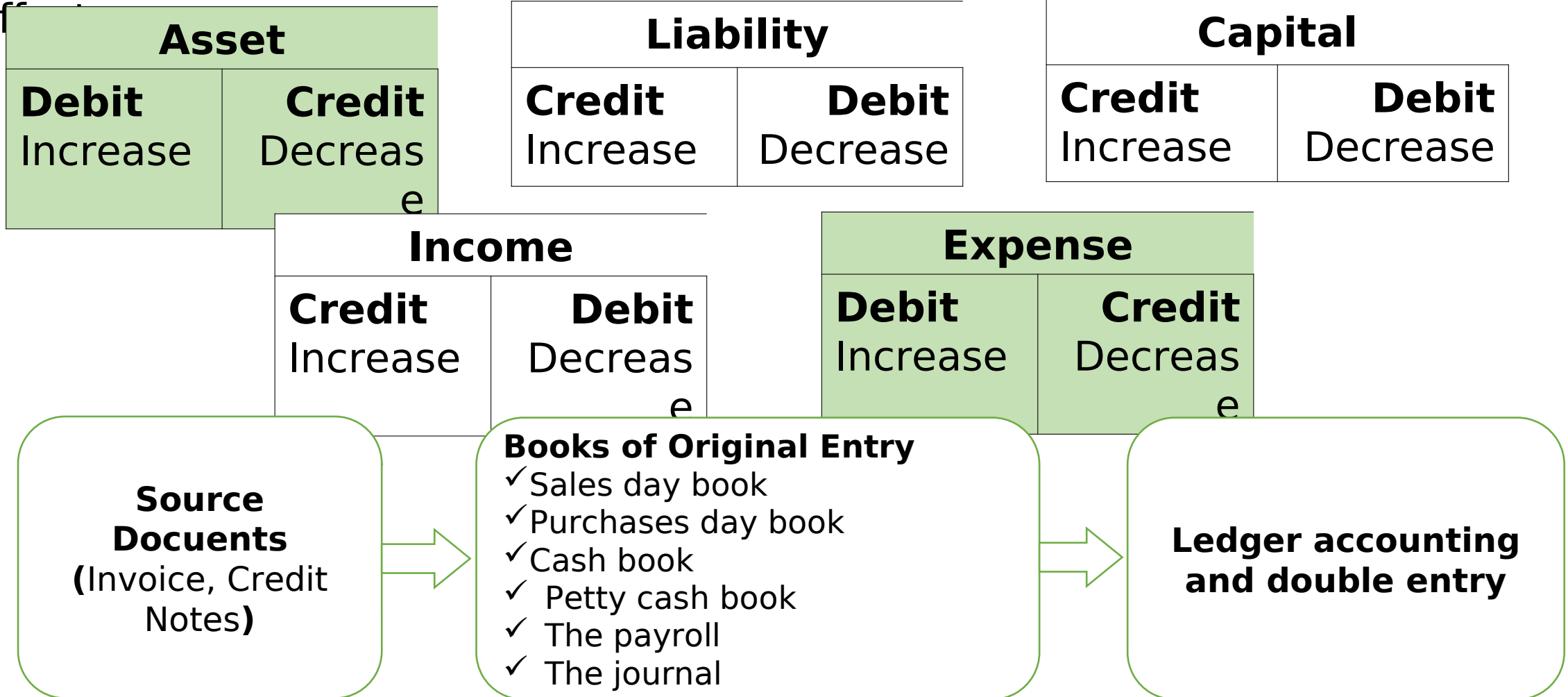


Nominal Ledger

Double entry book-keeping

Dual effect (duality concept)

▪The principle of double entry book-keeping is that **each transaction** has **two equal but opposite effects** in the ledger accounts of an entity: the dual effect



Journal

- Journals can be used to record any type of financial transaction, in which case the journal acts as the book of original entry for that transaction.

What are Journal Entries used for?

- The journal records transactions ***not recorded in any other book of original entry***, such as purchases of non-current assets. In particular the journal keeps a record of ***unusual movements*** between ledger accounts. It is used to record any double entries made which do not arise from the other books of original entry, such as when errors are discovered and need to be corrected.

Petty Cash Imprest System

The double entry for transactions recorded in the petty cash book works in the same way as the cash book.

When Petty Cash A/C is topped up:

Account Name	Debit	Credit
Petty Cash	XXX	
Cash at Bank		XXX

When expense is made from Petty Cash:

Account Name	Debit	Credit
Postage	XXX	
Travel	XXX	
Petty Cash		XXX

Accounting for Discounts

A reduction in the price of goods below the amount at which those goods would normally be sold to other customers.

Types

• **Trade Discount:** A reduction in the cost of goods, owing to the nature of the trading transaction. It usually results from buying goods in bulk. It is deducted from the list price of goods sold, to arrive at a final sales figure. There is ***no separate ledger account*** for trade discount. **No Journal Required.**

• **Cash Discount:** A reduction in the amount payable in return for immediate payment in cash, or for payment within an agreed period. There are separate ledger accounts for cash discounts: one for **discount allowed to customers**, and one for **discount received from suppliers**.

When Discount Allowed		
Account Name	Debit	Credit
Discount Allowed	XXX	
Trade Receivables		XXX

When Discount Received		
Account Name	Debit	Credit
Accounts Payable	XXX	
Discount Received		XXX

Accounting for VAT

- VAT is an indirect tax on the supply of goods and services. Tax is collected at each transfer point in the chain from prime producer to final consumer. Eventually, the consumer bears the tax in full and any tax paid earlier in the chain can be recovered by a registered trader who paid it.
- Types of VAT? VAT on Irrecoverable debt recoverable / not?
- What is Zero Rate, Reduced Rate, Standard Rate?

Registered and non-registered person:

- Traders whose sales (outputs) are below a ***certain level*** need not register for VAT although they may do so voluntarily. Unregistered traders neither charge VAT on their outputs nor are entitled to reclaim VAT on their inputs. They are in the same position as a final consumer.
- **Traders of Exempt Activities:** cannot charge VAT on their outputs and consequently cannot reclaim VAT paid on their inputs.
- **Traders of Taxable / Exempt Activities:** need to apportion the VAT suffered on inputs and can usually only reclaim the proportion of input tax that relates to taxable outputs.

Accounting for VAT

VAT should ***not be included in income or in expenses (but)***, whether of a capital or of a revenue nature.

Irrecoverable VAT:

- ✓ Persons not registered for VAT will suffer VAT on inputs as a cost.
- ✓ Registered persons who also carry on exempted activities may have a residue of input VAT which falls directly on them.
- ✓ Non-deductible inputs will be borne by all traders. E.g. VAT on Car Purchase, Entertainment for business purpose.

VAT and discounts

VAT is charged on the goods or services total on an invoice (or credit note) net of **Trade Discount**.

VAT on Credit Sales

Account Name	Debit	Credit
Accounts Receivable	XXX	
Sales		XXX
VAT Current Account		XXX

VAT on Credit Purchase

Account Name	Debit	Credit
Purchase	XXX	
VAT Current Account	XXX	
Accounts Payable		XXX

QUIZ

- 1) The VAT account in Atomic Ltd.'s nominal ledger currently shows output tax and input tax for the quarter at Tk. 228,196 and Tk. 176,949 respectively. A detailed review of the account highlights the following:

Tk. 8,301 of VAT on invoices received has been posted on output tax

VAT of Tk. 3,606 on sales has been posted to the debit of the VAT accounts

What is the correct amount of the VAT payable?

- 2) A debit balance of Tk. 3,000 brought down on A Ltd.'s Account in B Ltd.'s books means that. A / B Ltd. owes A / B Ltd.

- 3) A business which is registered for VAT received the following invoice from one of its VAT registered suppliers:

Invoice no: XXX Date: 20 June 2016

Goods of qty 100@BDT 10 = 1,000

Less: Trade Discount = (50)

= 950

A further discount of BDT 50 will be allowed if payment is received within 14 days. What amount of VAT should have been charged on the invoice? What amount will be deposited to Govt. Treasury.

- 4) IQ - 3 / 5 / 6 / 7

QUIZ ANSWER of CHAPTER 3

1) Employees Gross Wages would be [12,450 + 2,480 + 1,350 (employee's Pension)] = **16,280**

Total Payroll Cost to the Company [12,450 + 2,480 + 1,350 (employee's Pension) + 1,500 (employee's Pension)] = **17,780**

Waged Expense in the Income Statement of the Company = **17,780**

2) False. **Cash Book** is the book of original entry for discount allowed to customers.

2) Wages Expenses = [2,480 + 1,350 + 1,500 + 50,000] = **55,330**

3) Credit Note of BDT 100.

4) Cash Book. As the purchase is from a **Non-Credit** Suppliers.

5) A petty cash voucher of BDT 10 is missing.